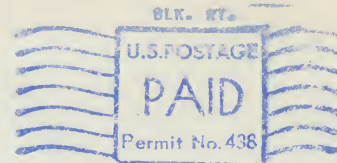


THE BUSINESSMAN & THE LAW

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THE BUSINESSMAN & THE LAW

A TIMELY REPORT ON ACTUAL LEGAL CASES AND THEIR EFFECT ON YOUR DAY-TO-DAY BUSINESS DECISIONS

CAN A WRITTEN CONTRACT BE CHANGED ORALLY?

What Happened: People who place their signatures on a written contract generally expect to be irrevocably bound by their act. "Otherwise, why sign it?" they might well ask. One businessman who asked that question found his answer via a law suit.

In the process of expanding his pottery business, Andrew Nubbard engaged Walter Sturges, a general contractor, to erect a building for him. The two men entered into a written agreement calling for the construction of a 2-story concrete-block edifice. The price agreed upon for the job was \$12,500.

After Sturges started on the job, he found that the ground would not support the building unless he dug considerably deeper for a footer. The contractor informed Nubbard that this would involve an expense that the contract had not anticipated.

"Don't worry about it. I'll pay for it, whatever it comes to," was Nubbard's response. Sturges thereupon went ahead with the extra work.

The final bill for the construction job came to \$14,700. However Nubbard then announced that he would not pay a penny more than \$12,500 — the price in the contract. But Sturges stubbornly demanded the full \$14,700 and sued for it rather than take less.

When the case came up in court, Nubbard defended with:


1. All I owe is \$12,500 — the price in the signed contract. You can't change a written contract by anything you later say in a conversation.
2. Besides, that additional \$2,200 was a "hold-up" — the building was already under way when Sturges hit me for it. He knew how difficult it would be for me to refuse it then.

Sturges replied:

- The additional costs were genuine.
- Who says you can't change a written contract orally? You can, if both sides agree. Here, we both agreed.

The Decision: *The oral change was valid.* A Pennsylvania Superior Court held that written contracts are not immutable. If both sides reach an accord — even if only by word of mouth — they can alter, abandon, or replace their agreement.

What's more, the evidence was very strong in this case that Sturges' additional expenses were really what he said they were. (119 A. 2d 568)

 **And That Isn't All:** Many states say a written contract can be modified or abandoned even without words. It can be done by conduct.

Examples: (1) A supplier enters into a written agreement to ship certain merchandise to a customer. The goods shipped to the customer differs from those described in the agreement. Nevertheless, the customer receives, inspects, pays for and then resells the merchandise. This contract has been altered even though neither party has acknowledged that in so many words.

(2) Smith contracts with Brown to paint his office on January 15th. But before the 15th rolls around, Smith has had a change of heart and has engaged Jones to do the same job. On January 15th, Brown is found painting a retail store for the same amount of money he would have earned from Smith. Even though nobody said a word, the contract between Smith and Brown was abandoned by the mutual agreement.

CAN AN UNDERSTAFFED DEPARTMENT HEAD CLAIM COMPENSATION FOR A HEART ATTACK?

What Happened: A supervisor's life is not a placid one. Over and above the daily hectic routine, there come those all-too-frequent crises that make the heart pound, the knees shake, and the palms sweat. Many such a harried executive can be heard to say: "One of these days I'm going to fall flat on my face!" Sometimes that is exactly what happens.

Ted Harman was sales manager for Good Food Products. It was his job to handle the details of introducing new lines. This was usually done on a regional basis and entailed coordinating advertising campaigns, merchandise displays, and sales pitches to retail personnel at luncheons, dinners, interviews, etc. Ted was always aided and abetted by two assistants. He knew his job and did it well.

Came the time to kick off the campaign for a new breakfast cereal that market research predicted would be a winner if the initial push went off as planned. At this critical point, Harman had a serious personnel problem. He went to his company president to kick it around.

"The new Crispies are ready to go — everything's set and today Tom's wife called me to say he's down with the flu," Harman told his boss. "With Blaine quitting last week, that leaves me without home-office help for the first days of the campaign."

"Blaine wasn't much good anyway — I've always told you that. You'll have to use our local people wherever you can. You're our top man, Ted. In the pinch, I know you can handle it by yourself."

The usually hypertense Harman was now really in a bind — but with a "do or die" attitude, he plunged ahead.

Early the next morning, he took off for Chicago. The plane developed engine trouble and had to turn back. When he finally reached the Windy City, he had to rush to the TV studios and pass up his lunch.

Immediately thereafter, he embarked on a round of supermarkets where he distributed posters, supervised display set-ups, and pitched the help. That night, he threw a party for the local distributors and regaled them with a glowing recital of the merits of the new product.

By 2 A.M., he retired to his hotel room completely exhausted. The next morning he awoke with a splitting headache — the thought of another tight schedule for the coming day had kept him awake most of the night. He reached for the phone to call room service and fell unconscious to the floor. Ted Harman had suffered a heart attack.

He applied for workmen's compensation benefits, claiming:

- I suffered an attack while engaged in my employment. It was caused by my employment — I am therefore entitled to benefits.

The insurance company demurred:

- You are entitled to benefits only for accidental injury directly caused by your employment. Such is not the case here.

The Decision: *The employee is entitled to benefits,* ruled the N. Y. Appellate Court. An injury caused by emotional stress or strain can be considered an accident.

The employee's work activities for the period immediately preceding his attack involved unusual and considerable emotional stress, anxiety and tension which, superimposed on his normal hypertension, precipitated the attack. It was therefore an accidental injury. (19 A. D. 2d 931)

→ **More On The Subject:** Heart attacks, strokes, nervous disorders, tuberculosis, and many other diseases which result from gradually aggravated, long standing conditions, always present a difficult question of whether they are job connected. Most such diseases are caused by an accumulation of environmental factors derived both from work and non-work conditions.

All the same, courts have frequently awarded workmen's compensation to such victims. Here are some cases where employees won:

1. An employee in a factory who suffered a nervous breakdown because of the tensions caused by assembly-line pressures.
2. An employee who suffered a heart attack in an argument with his boss.

3. The engineer sent out on an emergency maintenance job—fearing failure to go would mean his dismissal—who suffered a stroke.

You Be The Judge

DOES A PROMPT STOP PAYMENT ORDER ON A CHECK YOU ISSUED ALWAYS PROTECT YOU?

What Happened: More than one hasty businessman has drawn comfort from the fact that he has paid his bills by check. His ace-in-the-hole for rectifying a mistake is the stop payment order to his bank. If he moves promptly — let us say, the day after issuing the check — he can still save the bacon. At least, that is the widespread impression.

Norm Weston, of the Cattle Traders Company, knew Sig Malter casually, as he had bought cattle from him on infrequent occasions. Malter called on Tuesday and spoke to Weston. "I have 20 heifers I want to sell," he told Weston.

"Okay, I'll send a man around to look them over," Weston answered.

Inspection on Wednesday led to approval. On Thursday, Weston mailed Malter a check for \$5,000. Early Friday morning the trading company had a visitor.

"That cattle you bought from Malter is not his. We have a lien on it," the visitor said. Weston's feet, comfortably stretched on the desk, hit the floor with a bang. "Call the bank!" he told his secretary. "Stop payment on that \$5,000 check!"

Next, he telephoned Malter. "We deny the lien," Malter answered. "It's not valid. Sorry about the check, but I've already deposited it."

Weston shrugged. "We don't intend getting in the middle of this argument. Take back the cattle — the check won't be paid."

Bad news came to Weston the next week in a telephone call from Malter's bank. "About that check to Malter that you stopped — he already drew on it for \$3,500. It's up to you to make good on it."

"You paid on it?" Weston was astonished. "Didn't you even wait until it cleared?"

"Not with an old depositor like Malter," the bank answered. "He has privileges. We assumed your check was perfectly valid."

"I won't pay a cent," Weston retorted:

1. I gave my bank a stop payment notice in time.
2. If you choose to pay on a check before it clears, that's your baby, not mine.

The bank officer answered:

- On the contrary, we have the law on our side. We do not have to anticipate a stop payment order we know nothing about.

The bank sued for the \$3,500.

Did Weston Have To Pay: YES ☐ NO ☐

(See Decision — Page 4)

CAN YOU ALWAYS RELY ON THE SAMPLE SUBMITTED WHEN PURCHASING GOODS?

What Happened: The Brady Corporation was always on the alert for bargains in Government surplus. One day, Joe Brady received a notice from the Army that 15,000 pounds of elastic webbing were available for sale at its Keokuk, Iowa, depot. He had no representative in the area to examine the goods and he didn't want to bother making a trip from New York on a possible wild-goose chase. Brady therefore called the Army warehouse and asked them to send him a sample of the webbing.

The next day's mail contained the webbing — together with an invitation to submit a bid. Brady liked the sample. He made a 45¢ per pound bid for all the webbing and was elated to learn that it was accepted. He immediately sent out a check to Uncle Sam for the \$6,750.

When the goods arrived in New York, Brady's joy turned to sorrow. The webbing was nothing like the sample he had examined — it was dirty, stained, curled, twisted and wrinkled. Once again Brady was on the phone to Keokuk, Iowa:

- What kind of junk are you people trying to stick me with? I offered to buy webbing like the sample you sent me.
- Take back your shipment and return my money!

To which the Army icily retorted:

1. Please read your contract. Condition #1 says: "All property is sold 'as is' without express or implied warranty of any kind."
2. You should have inspected the goods before you made your bid.

"Why did I have to make an inspection?" Brady shouted. "You sent me a sample. I have a right to rely on the sample. If the goods don't match the sample, I don't have to accept them!"

When the Army refused to budge, Brady sued for a refund.

The Decision: *No refund. The buyer is stuck with the goods*, ruled the U.S. Court of Appeals.


"In disposing of surplus, the Government is not engaged in normal trade and frequently is ignorant of the condition of the goods it sells. Buyers have no right to expect, have notice not to expect, and contract not to expect any warranties whatsoever.

"Here the Government in effect was saying: We have 15,000 pounds of elastic scrap which we think is like this sample and would like to know what you will give for it. But you will have to take it as it is and take your chances as to its condition." (187 F. 2d. 109)

Comment: Government surplus sales are usually "as is." The burden is on the buyer to inspect the goods being offered. He should not rely on samples, even though they are furnished by Uncle Sam. A purchaser who fails to take the necessary precautions may find himself buying "a pig in a poke."

In this case, the Court ruled that the sample mailed to Brady was merely an indication of the

type of webbing available. It was not a promise that the bulk of the goods would conform to the sample submitted.

 **Protection For The Purchaser:** If a buyer intends to bind a seller to the quality of the sample, he should make sure that this is spelled out in the agreement. A phrase like "as per sample submitted" will usually suffice. In addition, the pact should be scrutinized to eliminate any conflicting provisos — like "as is."

IF YOUR CUSTOMER CANCELS HIS ORDER CAN YOU KEEP HIS DEPOSIT?

What Happened: A cash deposit to a seller is like diamonds to a girl. It's his best friend. Without a deposit, you might go to all kinds of expense preparing your product for shipment — only to find your customer backing out because of some unforeseen contingency.

The size of the deposit was the crux of difficult dickering between Mailer Manufacturing Co., an American firm producing printing presses, and Amtorg, the Russian purchasing agency. Price was no object—it was set at \$300,000—but Mailer insisted on a \$75,000 deposit, which Amtorg finally forked over.

Later events proved Amtorg's hesitancy justified. The U.S. Government denied the Russian agency an export license for the presses. Amtorg hurriedly placed a call to the manufacturer to break the bad news and cancel the deal.

"Nyet," said the manufacturer. "Those presses are already assembled, crated and ready for shipment."

"Without an export license, they're useless to us," lamented the agency. "We can't accept delivery."

"In that case," concluded the manufacturer, "we'll try to unload them elsewhere—but you can consider your deposit forfeited."

One month later, Amtorg got wind that the manufacturer had sold the presses—at an \$18,000 profit over and above the price to the Russians! Once again, the hot line between them buzzed: "We understand you made an extra profit on those presses. We demand a return of our deposit—*plus* that profit!"

"Are you kidding? You're not entitled to a penny. The deposit was forfeited and the profit belongs to us." An iron curtain descended between the disputants—and the cold war was carried to the courts.

The Decision: *The manufacturer keeps the profit—but the deposit must be returned*, ruled the U.S. Court of Appeals.

Mailer can only keep enough money to cover any loss it suffered because the Russians reneged on the deal. Since there was no loss, it must return the deposit. As for the profit, the judges saw no reason why Amtorg should benefit from Mailer's good business sense. (206 F. 2d 103)

Universal Rules on Deposits: The Uniform Commercial Code covers the subject of deposits—and should be the guiding consideration of a businessman when working out a deal. The Code says:

1. You and your customer can agree on a fixed sum as damages for refusal to take delivery. That understanding will be enforced if the amount is not unreasonably big.
2. If there is a deposit—but no agreed amount of damages was fixed—you can keep (out of the deposit) either 20% of the price of the goods or \$500—depending on which is smaller.
3. You must return the balance of the deposit unless you can prove that your damages (usually in the form of lost profits) were greater than the amount you kept.

SHOULD YOU CANCEL YOUR PRODUCT LIABILITY POLICY WHEN YOU STOP MANUFACTURING AN ITEM?

What Happened: When a company decides to discontinue an unprofitable operation, workers are discharged, the plant is closed down, inventory is disposed of, and insurance policies are cancelled. Unfortunately, such hasty action with a product liability policy can result in serious consequences. Take the case of a large Eastern research laboratory.

Simbini Labs was a well-known organization specializing in biochemical research. To capitalize on its excellent reputation, management decided to manufacture and distribute its own brand of laboratory equipment. As a necessary precaution, the company's insurance broker was directed to obtain a product liability policy.

The manufacturing end of the business never proved successful. After a five-year struggle, Simbini's board of directors decided to discontinue manufacturing and concentrate instead on laboratory research.

A vice president was delegated to arrange the winding-up operations. He called the insurance broker and told him to cancel all policies on the factory effective the day it ceased operations.

Six months later, Simbini was hit with a whopping law suit. A centrifuge manufactured two years earlier had suddenly gone wild, seriously injuring a lab technician. Clucking sympathetically for the victim, the vice president forwarded the papers to the insurance company.

Back they came by return mail, with a curt note reminding him that he had cancelled the policy six months ago. The VP ran to the insurance company and demanded to see the boss, claiming:

- That centrifuge was manufactured while your insurance policy was in effect. Why do you think we paid you premiums for five years!

"Please read the insurance policy you had," replied the company man:


1. Paragraph V says: "This policy applies only to accidents which occur during the policy period."
2. We suggest you hire a good lawyer to defend the suit.

"You people better hire a good lawyer, because we're going to sue you!" was the officer's rejoinder.

The Decision: *Simbini had no insurance coverage at the time of the accident*, ruled the N.Y. Supreme Court.

Although policies are interpreted whenever possible in favor of the insured, "Paragraph V of the policy explicitly limits application of the policy to accidents which occur during the policy period.

"The Court must accord to this clause its ordinary and usual meaning and may not extend it to include accidents occurring after the policy was cancelled." (129 N.Y.S. 2d 84)

 **Who Reads Insurance Policies?** Unfortunately, very few businessmen. If the vice president had taken the time to discuss the coverage with the broker, or had read the policy himself, Simbini would not have found itself in its present predicament.

There Are No Standard Forms for product liability insurance. Some policies, as here, provide coverage only for *accidents occurring during the policy term*. Other policies cover *products manufactured during the policy term*, while yet other policies cover *both* contingencies.


→ **Warning!** Recent court decisions have increased manufacturers' exposure to product liability suits. Previously, an injured person could only sue the retailer who sold him the product, and he had to prove that the product was actually defective.

Now, many courts permit a purchaser to sue the manufacturer directly. If he shows that the product failed to do its job, the manufacturer can be held liable.

You Be The Judge

The Decision: *For the bank.* It had paid out on the check on Friday prior to the time it could have been advised by Weston's bank of the stop payment order. It is, in parlance of the law, a "holder in due course"—which means the bank has a right to protection so long as the check was validly issued and the bank had no way of knowing it had been stopped.

A bank has the privilege of allowing a depositor to withdraw money on an uncleared check, a Federal District Court said. The fact that it may take a risk with a depositor is its own concern, and no argument can be raised by a man who issues a valid check. (254 F. Supp. 265)

 **Second Thoughts:** Fortunately for those who issue checks one day and seek to stop them the next, most banks do not permit a depositor to draw on it before it clears. However, this is not an invariable rule by any means, and oldtime depositors can have special privileges.

When you issue a stop payment order, remember it goes to *your* bank and not the payee's. *Your* bank knows about it—but *his* does not.

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INDEX

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Issues 689-712

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	Issue		Issue
ACCOUNTANTS		If Your Customer Cancels His Order, Can You Keep His Deposit	708
Can You Hold Your Accountant Responsible For Failing To Detect Employee Embezzlement	695	Are You Responsible For Damages To A Customer If You Give Him Incorrect Information	708
ANTI-TRUST		Can You Be Made Responsible If Your Employee Oversteps His Authority	710
Are Price Cuts Valid If The Purpose Is To Hurt Your Competition	700	DEFECTIVE MERCHANDISE	
Can You Make A Deal With A Customer Not To Sell To His Competitor	702	If Part Of A Shipment Is Defective, Can A Buyer Accept The Good Portion And Return The Rest	689
Can You Refuse To Deal With A Supplier Who Sells Directly To Your Customers	706	If A Supplier Sends You Defective Goods & You Bring It Up To Specifications Must He Pay The Cost	695
BANKS & CHECKS		Can You Cancel A Purchase Six Months After Taking Delivery, If You Discover The Goods Are Defective	696
If A Customer Pays You With A Bank Cashier's Check, Can She Later Stop It	689	If The Equipment You Ordered Fails To Do The Job, Can You Return It	702
Does A Prompt Stop Payment Order On A Check You Issued Always Protect You	691	Can You Return An Unsatisfactory Purchase Without Giving The Seller A Chance To Make Repairs	707
Can You Certify A Check Offered In Settlement Of A Claim And Still Sue For The Balance	698	Who Takes The Loss For Goods Damaged In Transit — You Or Your Customer	709
Can A Person Be Prosecuted On A Worthless Check If It Is Prematurely Deposited	702	Who Is Responsible For Damage To A Shipment That Is Handled By More Than One Carrier	712
Can You Stop Payment On A Cashier's Check	706	DISCRIMINATION	
Can The Government Examine Your Bank Account Without Your Consent	708	Are You Violating The Antibias Law If You Use Tests For Promoting Employees	700
Can You Retain A Check Sent 'In Full Settlement' And Still Sue For The Balance	712	Do You Violate The Antibias Law If You Refuse To Give An Employee Time Off For A Religious Holiday	705
BUYING & SELLING		EMPLOYER & EMPLOYEE	
Can Your Salesman Sell Your Product Without The Approval Required In Your Printed Order Blanks	692	If You Advance Salary To An Employee, Does Your Claim Come Before A Garnishee	693
Can An Irate Purchaser Be Stopped From Exhibiting A 'Lemon'	692	How Long Must A Maternity Leave Be	693
Can A Buyer Back Out Of An Order Before Confirmation By The Home Office	697	Can A Widow Collect Retirement Pay Promised By The Company To Her Husband	704
When Can Your Customer Force You To Accept Return Of Goods He Cannot Sell	703	Can An Employee Sue A Superior For Recommending His Dismissal	711
If You Fail To Complete An Order, Can You Collect For The Part You Delivered	705	EMPLOYMENT AGENCIES	
Can You Always Rely On The Sample Submitted When Purchasing Goods	706	If The Company Pays A Job Agency Fee, Can It Get A Refund Because The Employee Quit	708
Must An Agent Disclose His Client's Identity To Escape Personal Liability For A Purchase	709	EMPLOYMENT CONTRACTS	
Can You Hold A Seller To His Statement That His Price Is The Lowest	711	If An Executive Is Forced Out By New Management, Must He Look For Another Job	700
How Fast Must Delivery Be On An Order Marked 'Rush'	712	How Long Does An Employment Contract Run When The Duration Is Omitted	703
CONTRACTS		Can You Fire An Executive Because He Lost Money For The Company	712
Do You Have An Enforceable Deal If Details Are Left Open	689	GOVERNMENT BUSINESS	
Is A Printed Contract Any Good If Some Of The Blank Spaces In It Are Left Unfilled	690	What Are The Risks Of Buying Government Surplus	692
If A Company Agrees To Supply Your Requirements Of A Material For The Year, Can You Enforce It	690	Does The Government Have To Pay A Contractor Additional Money If He Performs Additional Work	703
Can A Written Contract Be Changed Orally	691	If The Government Changes Its Contract, Must The Contractor Go Through With The Deal	705
Can You Cancel A Deal With A Company Because It Has Changed Owners	692	INDUSTRIAL ESPIONAGE	
Is A Businessman Bound By A Trade Custom He Knows Nothing About	693	Is It Illegal For You To Instruct One Of Your Employees To Listen In On A Telephone Extension	694
Can You Undo A Typing Error In A Contract You Wrote	697	When Can You Plant A Spy In Your Competitor's Business	695
Can You Be Forced To 'Raise The Ante' On A Signed And Sealed Contract	708	When Can Your Competitor Copy Your Secret Machines	698
Can You Void A Printed Contract Because The Conditions Are 'Hidden' On The Back Of It	710	Can Records Removed From Your Files By An Employee Be Used Against The Company	709
Can You Sue On A Deal With A Businessman Who Is Now Dead	710	INSURANCE	
Can You Collect For The Anguish Caused By A Broken Contract	711	Can You Lie About Your Age To An Insurance Company	689
CORPORATE GIVING		Should You Cancel Your Product Liability Policy When You Stop Manufacturing	691
What Are The Limits On Corporate Giving	696	Can An Understaffed Department Head Claim Compensation For A Heart Attack	691
When Can You Deduct As A Full Business Expense A Contribution To A Non-Profit Organization	698	Does Your Accident Policy Cover You On A Charter Flight	694
CREDITORS		Is Your Insurance Company Liable For Refusing To Settle A Claim, And You Are Later Hit With A Big Judgment	701
Must The Purchaser Of A Business Notify The Creditors	696	LIBEL & SLANDER	
Can A Stockholder's Creditors Seize His Shares	697	Can You Sue A Credit Agency For Issuing A False Report On You	699
CUSTOMER RELATIONS		Can You Sue A Competitor Who Writes To Your Customer Saying That You Cannot Ship The Merchandise Promised	704
Can An Irate Purchaser Be Stopped From Exhibiting A 'Lemon'	692	Can A Company 'Warn' The Trade By An Advertisement That An Executive Is No Longer With Them	706
Is The Company Responsible If A Customer Gets Poor Advice From An Employee	701	Can You Cover Up The Real Reason An Employee Left By Advising The Trade That He Has Retired	708
What Are The Pitfalls Of Running A Promotional Contest	702		
When Can Your Customer Force You To Accept Return Of Goods He Cannot Sell	703		

	Issue		Issue
MISTAKES		Can A Minority Stockholder Block A Corporate Merger	698
If You Make A Fast Estimate And Give A Wrong Quote,		When Can't An Executive Trade In His Company's Stock	
Can You Later Back Out	689	And Keep The Profits	699
Are You Bound By A Low Bid Computed In Error	693	Is A Broker Liable For Losses Caused By Excessive	
Can You Undo A Typing Error In A Contract You Wrote	697	Trading In His Customer's Account	703
Must A Customer Accept A Replacement If A Supplier			
Ships The Wrong Order	698	TAXES	
Can You Dispute The Correctness Of A Bill After Asking		How Much Is A Good Wife Worth	690
For Time To Pay It	710	How You Can Avoid An Estate Tax On Your Home By	
Must You Inspect On Delivery — To Be Protected Against		Giving It To Your Wife	691
The 'Wrong' Merchandise	711	Can You Take A Tax Deduction On The Cost Of A	
NEGLIGENCE		Trip To Inspect Your Property	693
Can A Company Disclaim Liability For Its Own		How Tax-Deductible Are A Travelling Salesman's Road	
Negligence	704	Expenses	694
When Can't You Sue A Company Whose Negligence		Are You Entitled To A Tax Deduction Because Other	
Disrupted Your Business	707	Taxpayers Got It	700
OFFICERS & DIRECTORS —		Does A Money-Losing Business Have Any 'Goodwill'	701
POWERS & RESPONSIBILITIES		May A Corporation Pay A Subsidiary's Debts As A 'Moral	
Can A Director Secede From His Company	690	Obligation'	703
Can An Understaffed Department Head Claim		When Can You Write Off A Bad Debt	704
Compensation For A Heart Attack	691	Can You Take A Tax Deduction On An Accident Which	
Can A Company Hand Out Retroactive Salary Increases	695	Was Your Own Fault	705
Are Directors Personally Responsible For Voting An		Is An 'All Expenses Paid' Convention A Form Of Wages	
Excessive Dividend	697	To Employees Who Attend	706
When Can't An Executive Trade In His Company's Stock		Can You Get A Tax Deduction On Your Wife's Travel	
And Keep The Profits	699	Expenses	707
Can A Corporation Borrow Money To Pay Dividends	699	Can The Government Examine Your Bank Account Without	
Can A Corporation Issue Stock To Pay For The Services		Your Consent	708
Of A Consultant	706	Can I. R. S. Penalize A Taxpayer Who Exaggerates His	
Can Directors Borrow Company Funds For Their Own		Business Success	709
Benefit	707	Do You Lose Your Depreciation Allowance If You Sell	
Can A Corporation Pay Its Officers With Merchandise		Your Assets At A Profit	710
Instead Of Money	709	Are Your Profits From Real Estate Entitled to Capital	
Can A Company Guarantee A Loan To One Of Its Officers	711	Gains Treatment	711
PERSONAL LIFE		Can A Company Take A Tax Loss On Its Inventory	712
When Can Your In-Laws Inherit Your Estate	690	TRADEMARKS	
How Much Is A Good Wife Worth	690	Can A Company Claim Exclusive Ownership Of A Color	
Does Your Accident Policy Cover You On A Charter		Combination In Packaging Its Product	701
Flight	694	TRADE SECRETS	
Must Parents Pay College Costs For A Child Who Has		Can An Executive Be Barred Forever From Disclosing	
Independent Means	696	A Trade Secret	692
Can You Be Sued For Your Gambling Losses	698	When Can Your Competitor Copy Your Secret Machines	698
Can You Get Your Deposit Back If You Renege On A Real		UNFAIR COMPETITION	
Estate Purchase	699	Can You Sue A Competitor For 'Stealing' An Account	690
Must You Pay A Realty Broker's Commission Even If		When Is 'Push Money' Legal	693
Your Sale Falls Through	704	Can You Sue A Competitor For 'Stealing' One Of Your	
Can You Hold Your Travel Agent Responsible If Your		Customers	694
Trip Goes Wrong	710	Is It Unfair To You If Your Competitor Gets Orders	
PRODUCT LIABILITY		Through Lavish Entertainment	694
Should You Cancel Your Product Liability Policy When		When Can You Plant A Spy In Your Competitor's	
You Stop Manufacturing	691	Business	695
If Your Salesman Says Your Goods 'Will Last A Lifetime'		Can You Stop Your Competitor From Dishonest Selling	
Must You Stand Behind That Promise	700	Practices	695
REAL ESTATE & LEASES		When Can You Sue A Competitor If He Claims His	
Can You Take A Tax Deduction On The Cost Of A Trip		Product Is As Good As Yours	696
To Inspect Your Property	693	Can You Sue Your Competitor If He Spreads A Story	
Can You Get Your Deposit Back If You Renege On A		That His Product Is 'Unique'	703
Real Estate Purchase	699	UNIONS	
What Is A Businessman's Obligation After His Lease		Who Can Sue A Union For Damages Caused By An	
Runs Out	707	Illegal Strike	695
ROYALTIES		VERBAL CONTRACTS	
Can The Owner Of An Invention Charge You 'Exorbitant'		Can A Written Contract Be Changed Orally	691
Royalties	699	Can You Hold A Man To His Word, Even Though It	
SALESMEN		Changes The Contract	694
Can A Salesman Take Back Goods From A Customer	690	VETERANS	
Can Your Salesman Sell Your Product Without The		When Can A Returned Veteran Be Fired	701
Approval Required In Your Printed Order Blanks	692	WILLS, ESTATES & TRUSTS	
If Your Salesman Says Your Goods 'Will Last A Lifetime'		Must Your 'Wish' Or 'Desire' Expressed In Your Will	
Must You Stand Behind That Promise	700	Be Obeyed	689
Can A Salesman Collect Commission On Business		When Can Your In-Laws Inherit Your Estate	690
He Obtained Illegally	701	How You Can Avoid An Estate Tax On Your Home By	
Does A Salesman Earn His Commission If His Company		Giving It To Your Wife	691
Cancels The Sale	702	Should Parents Manage The Trusts They Set Up For	
If Your Salesman Offers 'Extras' To A Customer, Must		Their Children	697
You Go Along	704	If You And Your Wife Make A Joint Will, Can You	
Does A Salesman Earn His Commission Even Though		Change Yours Later Without Her Okay	700
The Buyer Returns The Merchandise	705	WORKING FOR COMPETITORS	
Does A Salesman Have 'Good Cause' To Quit When His		Can Your Competitor Object If You Hire Away A	
Drawing Account Is Terminated	707	Group Of His Dissatisfied Employees	696
When Is A Company Responsible For A Salesman's		After A Key Employee Quits, Can You Pay Him Not To	
Exaggerations	709	Go To A Competitor	697
When Can Your Salesman Claim That His Territory Is		Can You Bar Office Help From Switching To A	
Exclusive	712	Competitor	699
STOCK SALES		When Can A Departing Employee Start Working For	
Can A Company Offer To Sell Stock To Its Employees		Your Competitor	702
Without Registering With The S. E. C.	691	If You Break An Employee's Contract And Fire Him, Can	
Can A Stockholder Stop A Corporation From Buying Back		You Still Stop Him From Working For A Competitor	705
Its Own Stock	692		

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